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Displaced Long-Term Workers

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Displaced Long-Term Workers

Randall W. Eberts

W. E. Upjohn Institute for Employment Research

The Middle Class and Social Policy: Rethinking the Canadian Model?

Queen's International Institute on Social Policy

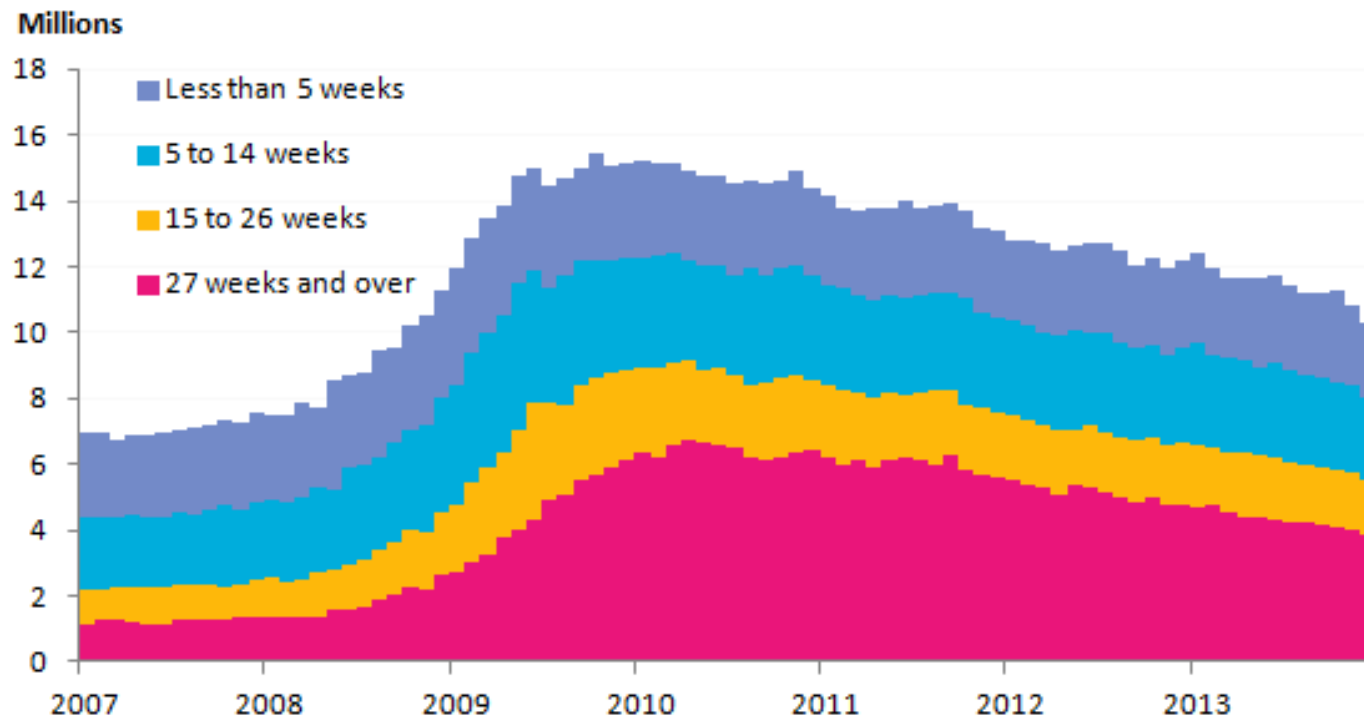
Queen's University

August 18-20 2014

Outline

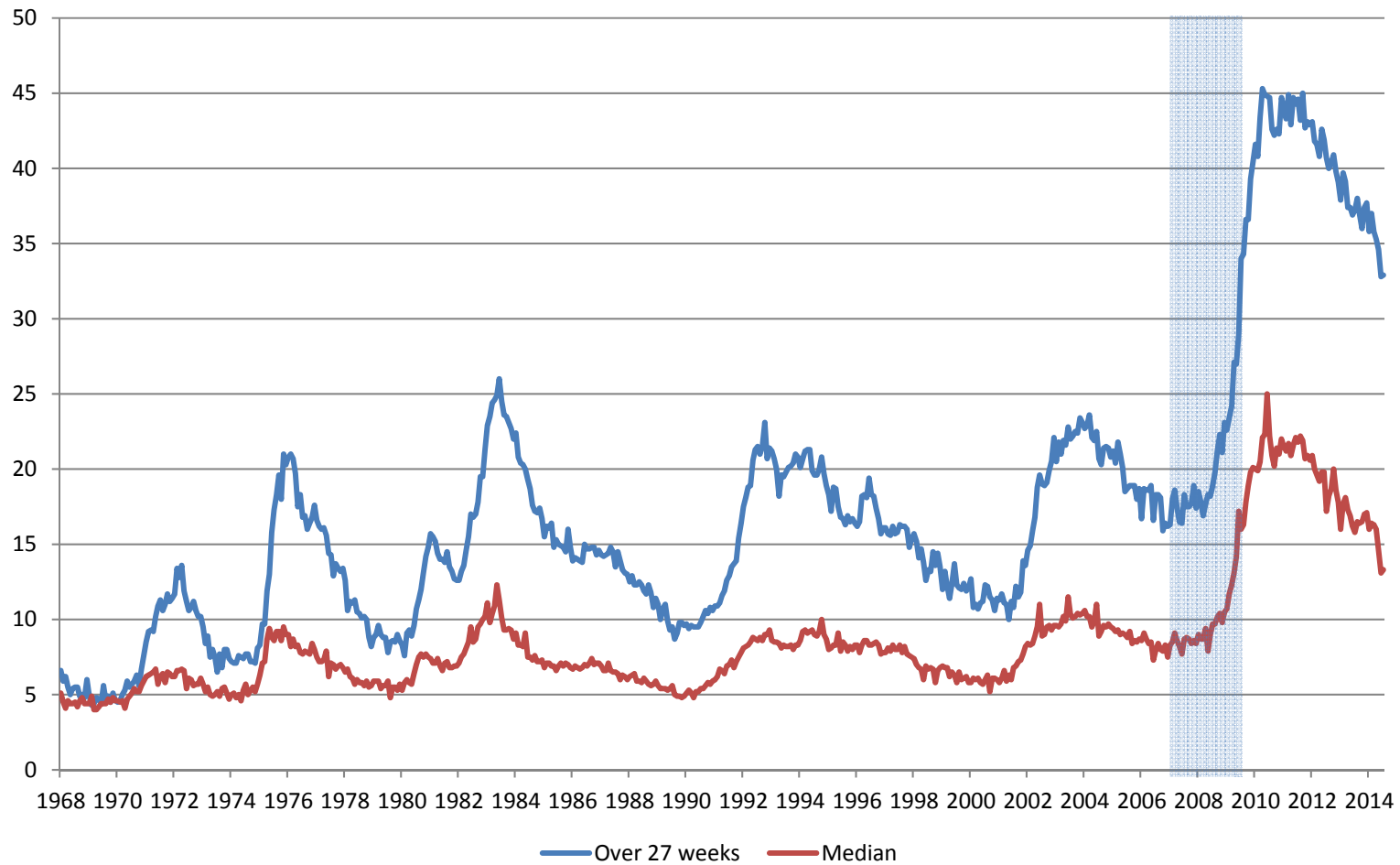
- Unemployment duration in historical perspective
- Labor market dynamics in the recession
- Flows contributing to long-term unemployment
- Characteristics of long-term and shorter-term unemployed
- Policies and Programs to help long-term unemployed

Number of unemployed persons by duration of unemployment, seasonally adjusted, January 2007–December 2013



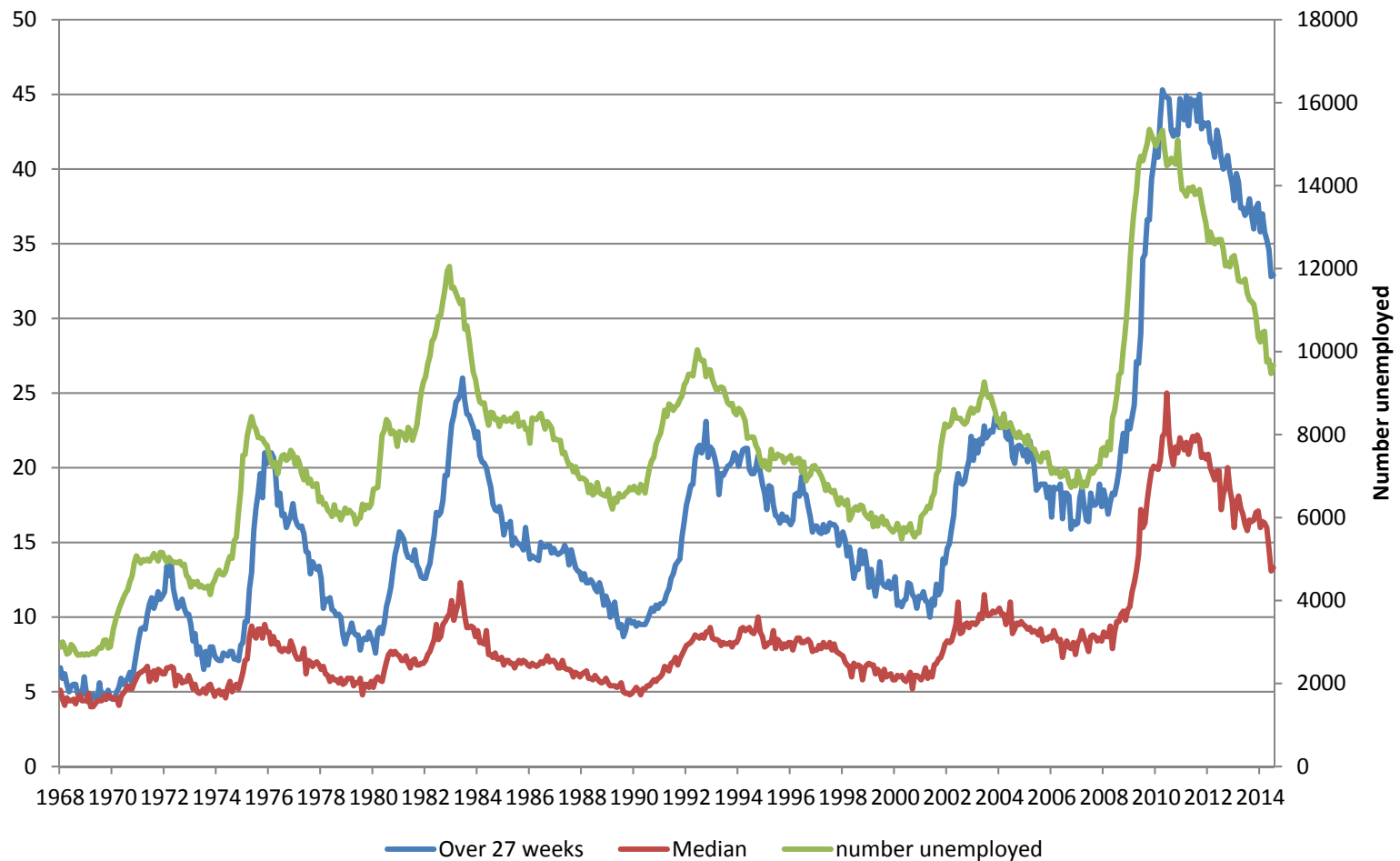
Source: U.S. Bureau of Labor Statistics.

Long-term Unemployed

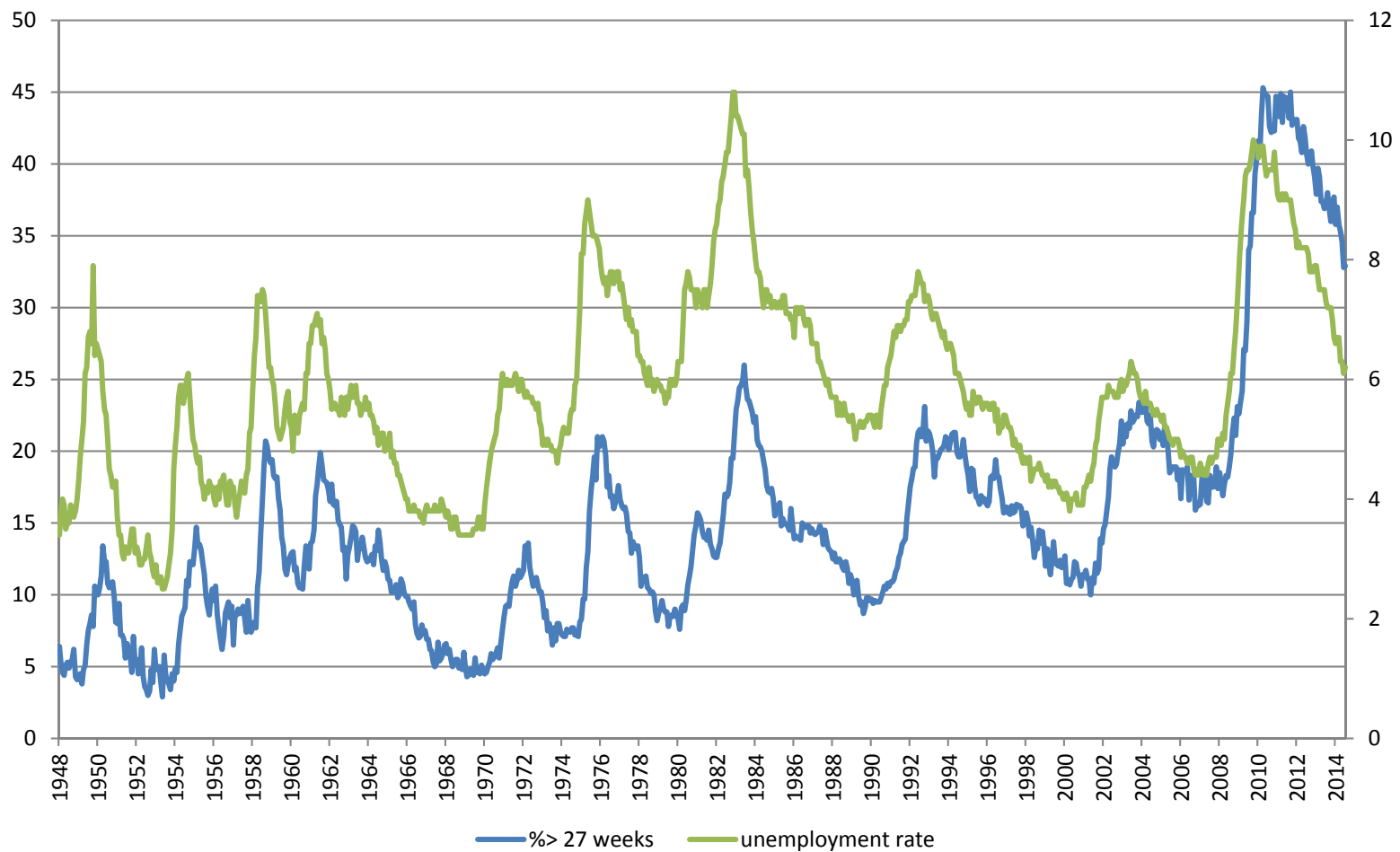


Long-term unemployment rose to unprecedented levels by any measure during the Great Recession. The previous high was 26 percent compared to 45 percent. Even now with the unemployment rate at 6.2 percent the percentage of long-term unemployed is 33 percent.

Unemployment Duration and the Unemployment Cycle

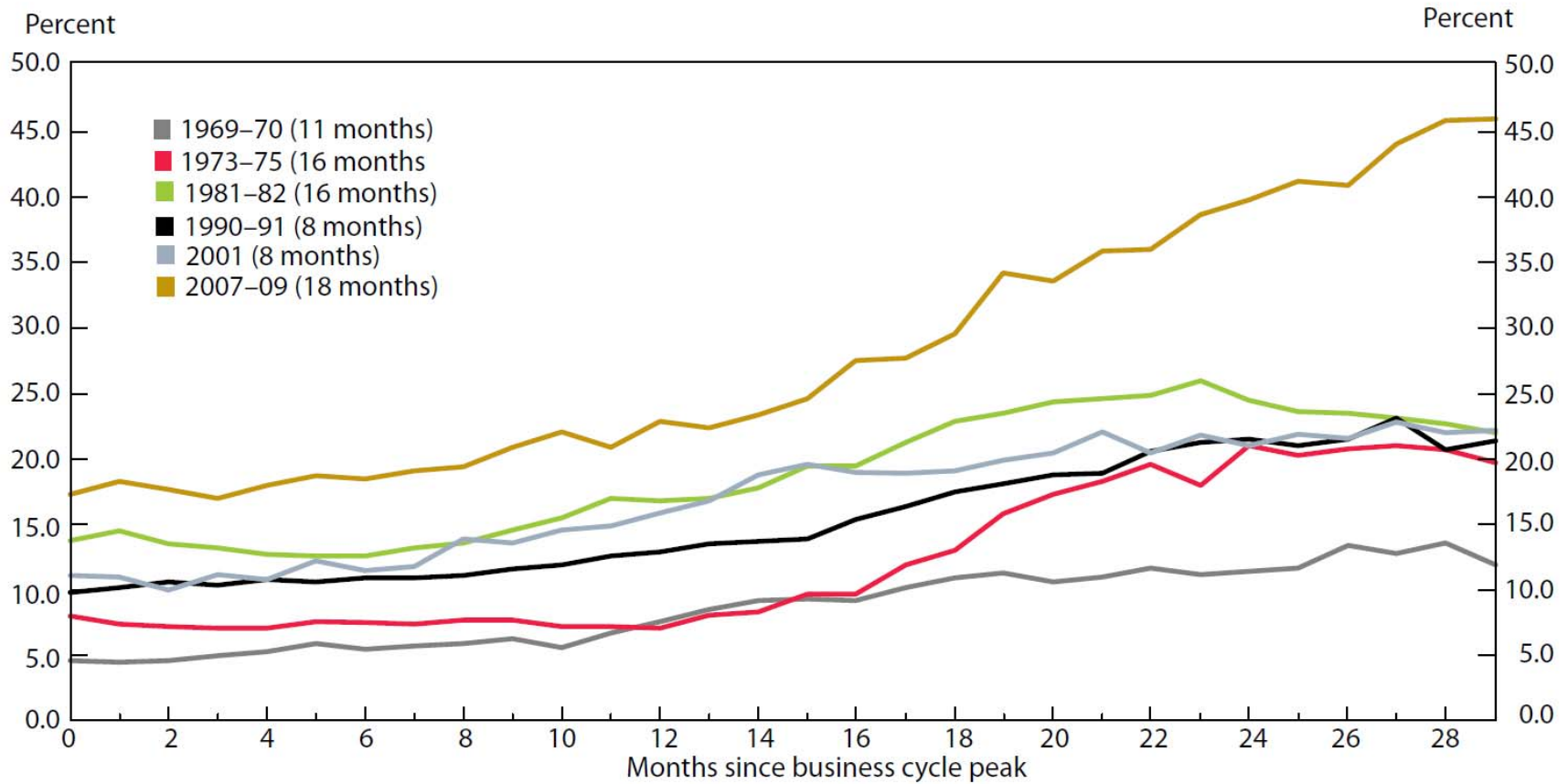


The long-term unemployment rate and median weeks follow the cycles of unemployment, particularly when LTU is measured as percentage of unemployed with unemployment spells greater than 27 weeks.



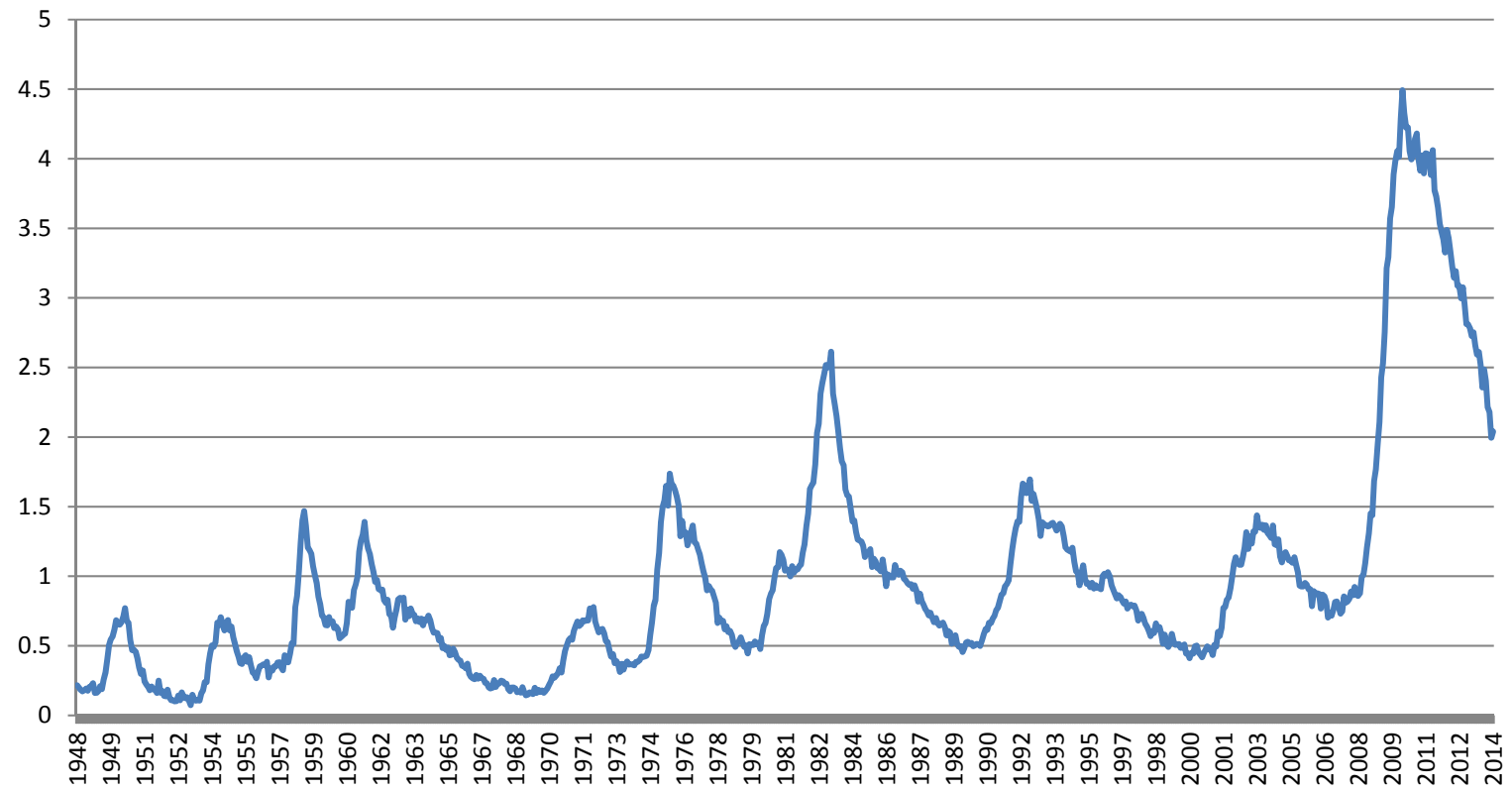
Even during the recessions of the early 1980 when the unemployment rate surpassed the peak rate of the Great Recession by 0.8 percentage points (10.8% v. 10.0%), the percentage of unemployed with unemployment spells greater than 27 weeks was 20 percentage points lower at that time compared to the most recent recession.

The share of unemployment accounted for by long-term unemployment, from the onset of each of the last six recessions forward



Source: S. Allegretto and D. Lynch, "The composition of the unemployed and long-term unemployed in tough labor markets," Monthly Labor Review, Oct. 2010, p. 5.

Long-term Unemployed as Percentage of Labor Force



Source: CPS

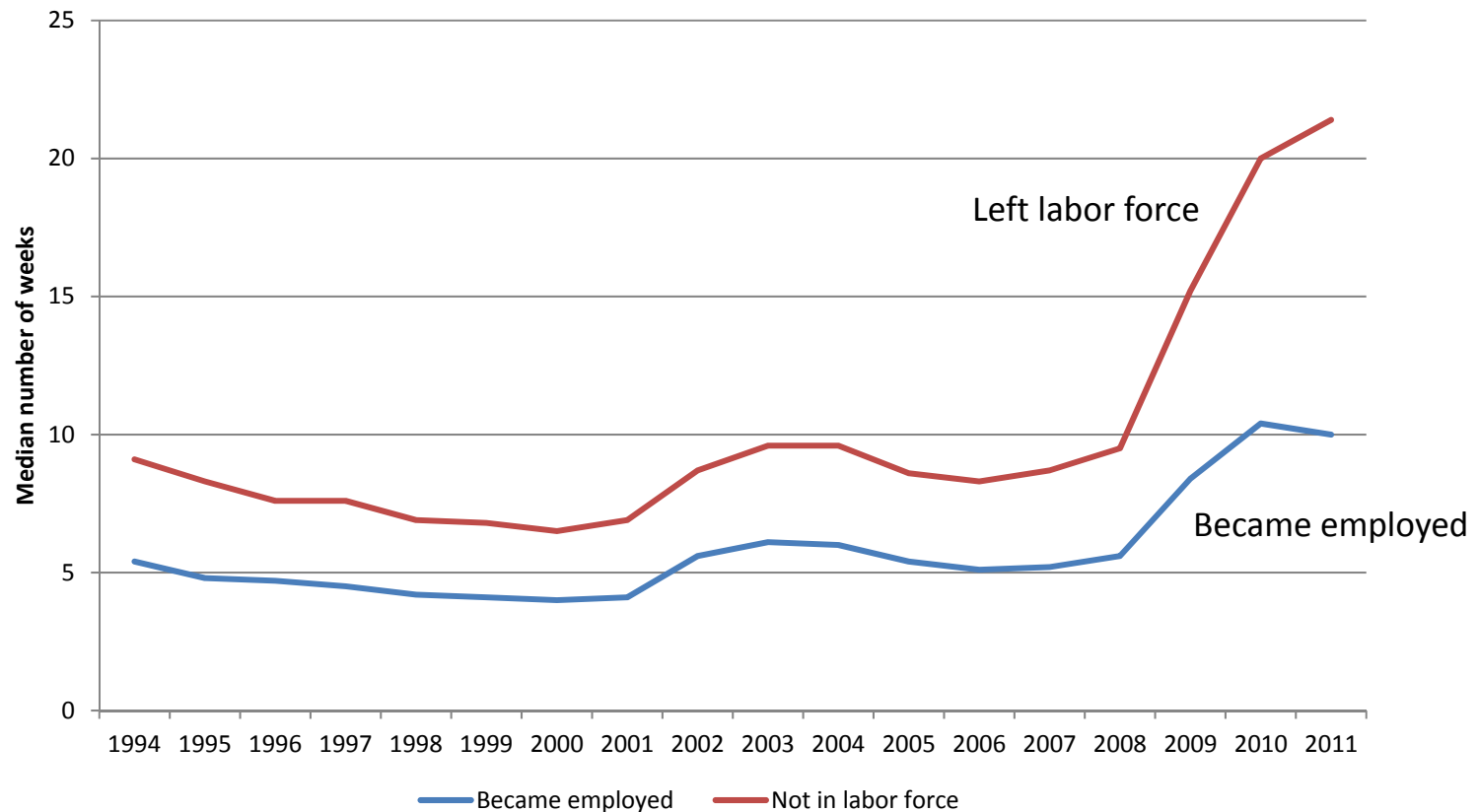
Weeks of Unemployment for those Unemployed

	50 th percentile	75 th percentile	95 th percentile	mean
2006	8	21	60	17.3
2007	8	21	60	17.3
2008	10	22	61	18.3
2009	16	35	81	24.3
2010	22	52	108	33.5
2011	22	56	112	35.6

Source: Matched monthly CPS

The number of unemployed reached 112 for the 95th percentile of the unemployed. Double what it was before the recession. Some of the increase may be attributed to extended UI benefits that beneficiaries could receive for 99 weeks.

Median number of weeks of unemployment for persons who became employed or left the labor force



The median number of weeks of unemployment diverged during the recession for those finding employment the next month compared with those leaving the labor force the next month, leading some to attribute a larger number of marginal workers as a reason for the high duration of unemployment.

Median Weeks Unemployed

Year	Age Group							
	16-34		35-49		50+		16+	
2006	8	(56)	10	(69)	11	(104)	8	(60)
2007	8	(56)	10	(63)	11	(104)	8	(60)
2008	8	(56)	11	(63)	12	(104)	10	(61)
2009	13	(65)	17	(83)	20	(104)	16	(81)
2010	16	(104)	26	(108)	31	(109)	22	(108)
2011	17	(108)	26	(113)	30	(116)	22	(112)

Note: 95th percentile in parentheses

The median weeks of unemployment increased more for the older age group than for the younger age group. The spread across age groups was wider after the recession than before.

Share of Unemployed by Age Group: Short- and Long-term Unemployed

	Unemployed < 27 weeks			Unemployed >27 weeks		
	Age Groups			Age Groups		
Year	16-34	35-49	50+	16-34	35-49	50+
2006	0.580	0.261	0.145	0.428	0.317	0.234
2007	0.573	0.252	0.159	0.436	0.301	0.239
2008	0.561	0.257	0.167	0.433	0.299	0.241
2009	0.529	0.276	0.179	0.417	0.305	0.254
2010	0.554	0.256	0.174	0.403	0.311	0.261
2011	0.545	0.255	0.179	0.405	0.312	0.262

The oldest age group, for both short-term and long-term unemployed, increased its share of unemployment whereas the youngest group decreased its share of unemployment.

What Happened?

- Look at job openings and hires
- JOLTS (BLS) is a monthly sample of 16,000 establishments
- Job openings
- Hires
- Separations
 - Quits
 - Layoffs and discharges
 - Other separations

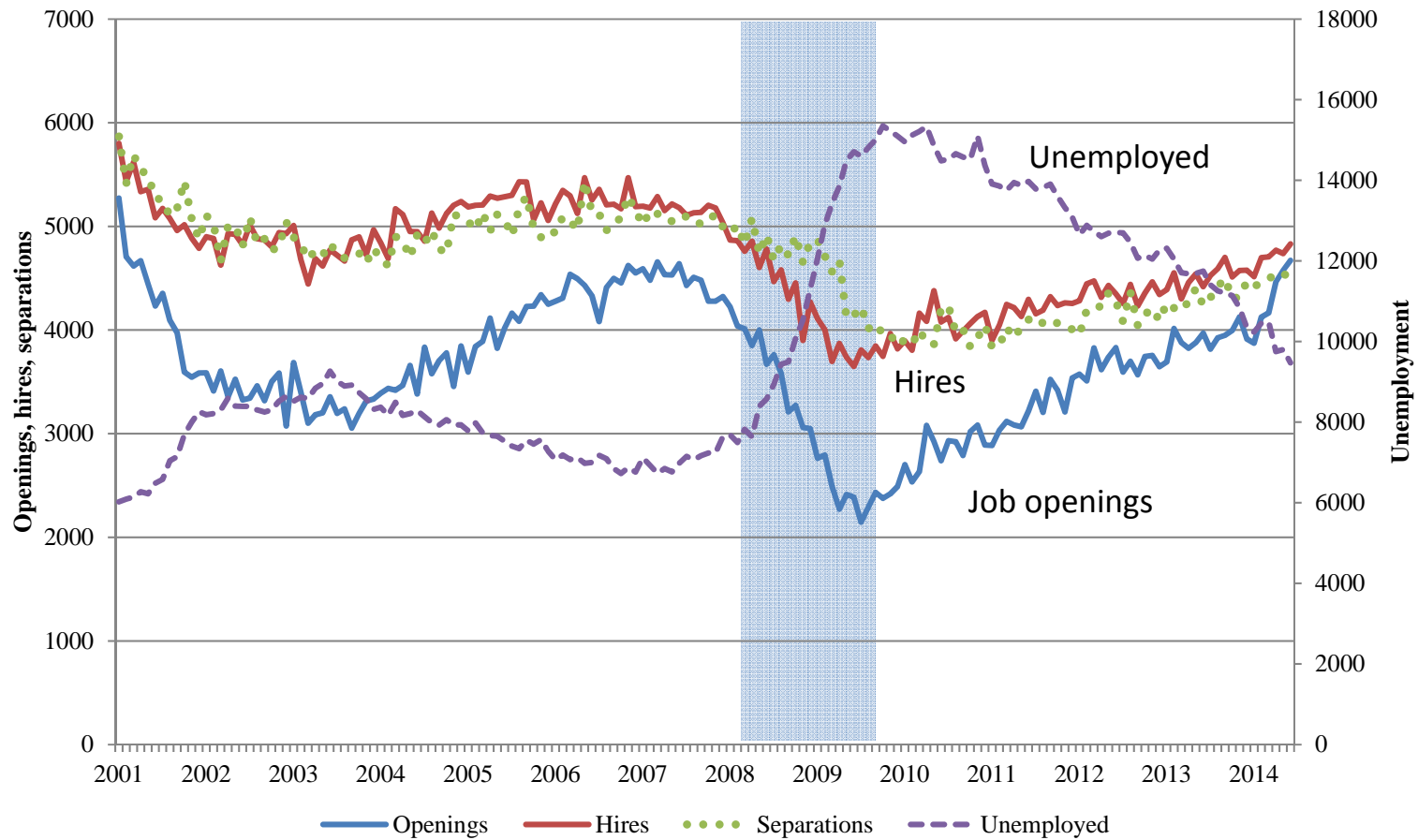
Definition of Job Openings

- JOLTS defines Job Openings as all positions that are open (not filled) on the last business day of the month. A job is "open" only if it meets all three of the following conditions:
 - A specific position exists and there is work available for that position. The position can be full-time or part-time, and it can be permanent, short-term, or seasonal, **and**
 - The job could start within 30 days, whether or not the establishment finds a suitable candidate during that time, **and**
 - There is active recruiting for workers from outside the establishment location that has the opening.
- Monthly sample of 16,000 nonfarm business establishments

Definition of Hires

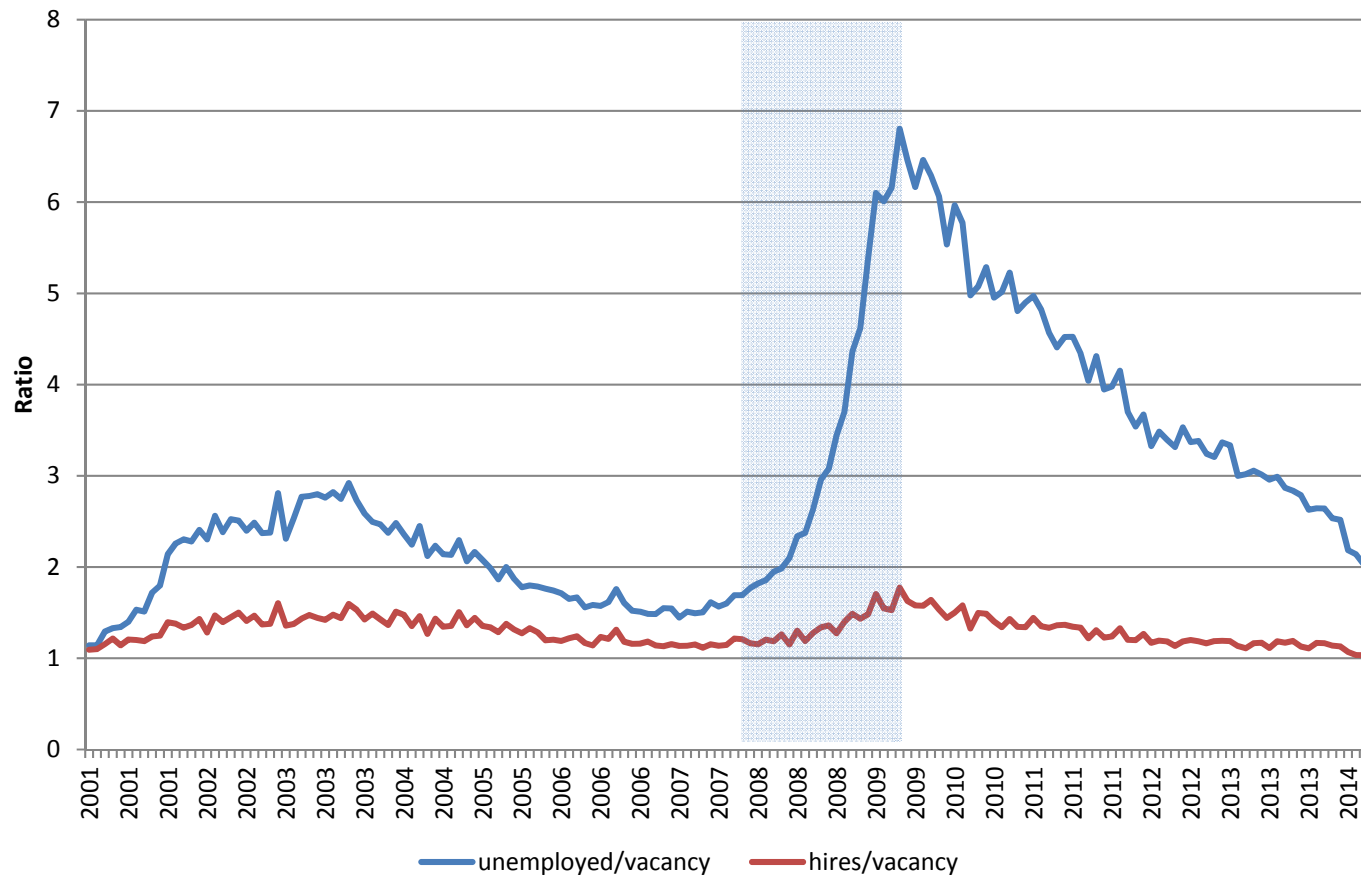
- JOLTS defines Hires as all additions to the payroll during the month.
 - Newly hired and rehired employees
 - Permanent, short-term, and seasonal employees
 - Full-time and part-time employees
 - On-call or intermittent employees who returned to work after having been formally separated
 - Workers who were hired and separated during the month
 - Transfers from other locations
 - Employees who were recalled to a job at the sampled establishment following a formal layoff lasting more than 7 days
- DOES NOT INCLUDE:
 - Transfers or promotions within the sampled establishment
 - Employees returning from strikes
 - Employees of temporary help agencies, employee leasing companies, outside contractors, or consultants working at the sampled establishment. A separate form is used to collect information from temporary help and employee leasing firms for these employees.

Hires and job openings were the first to turn south...



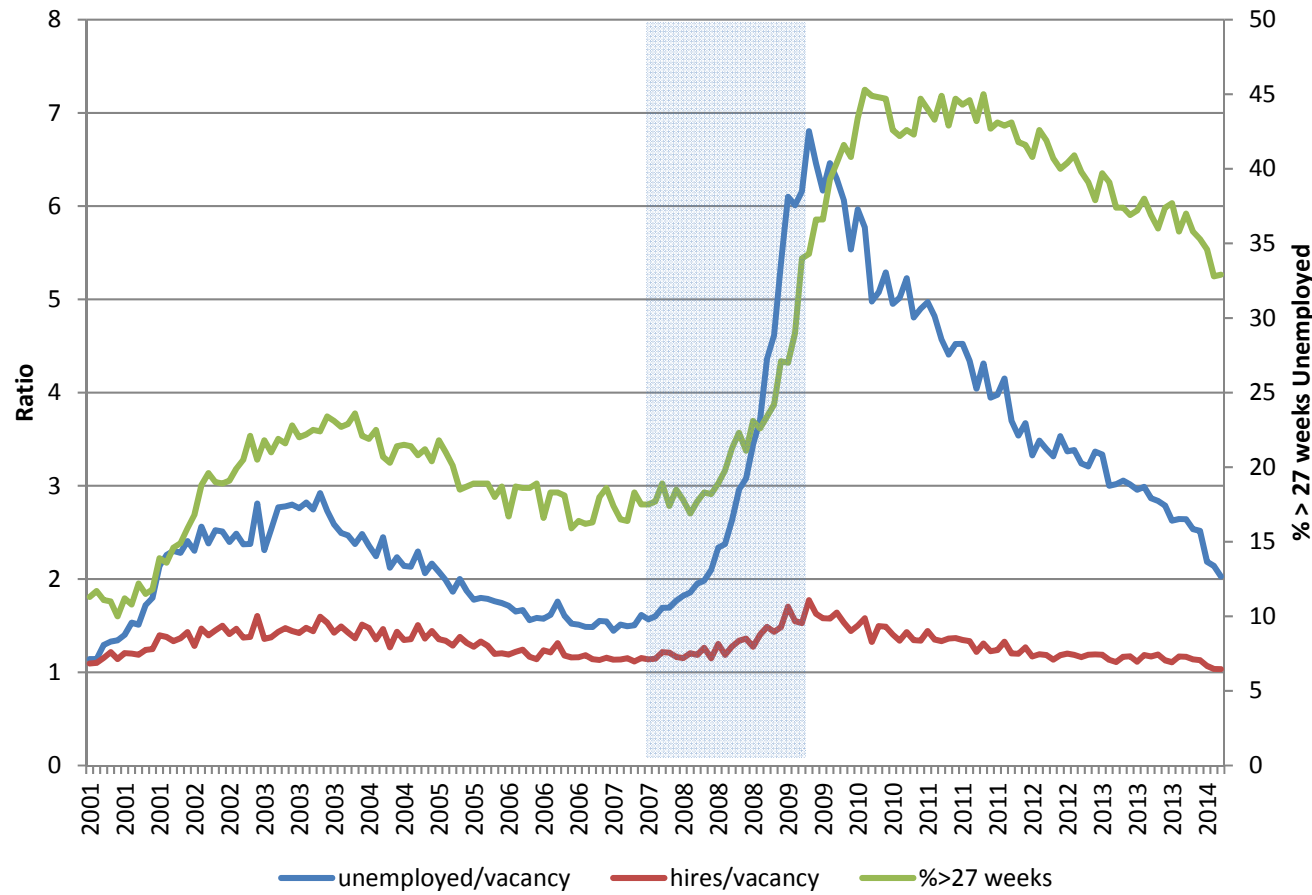
...11 months into the recession both hit record lows since 2001, when JOLTS began.

Number of Unemployed per Job Opening



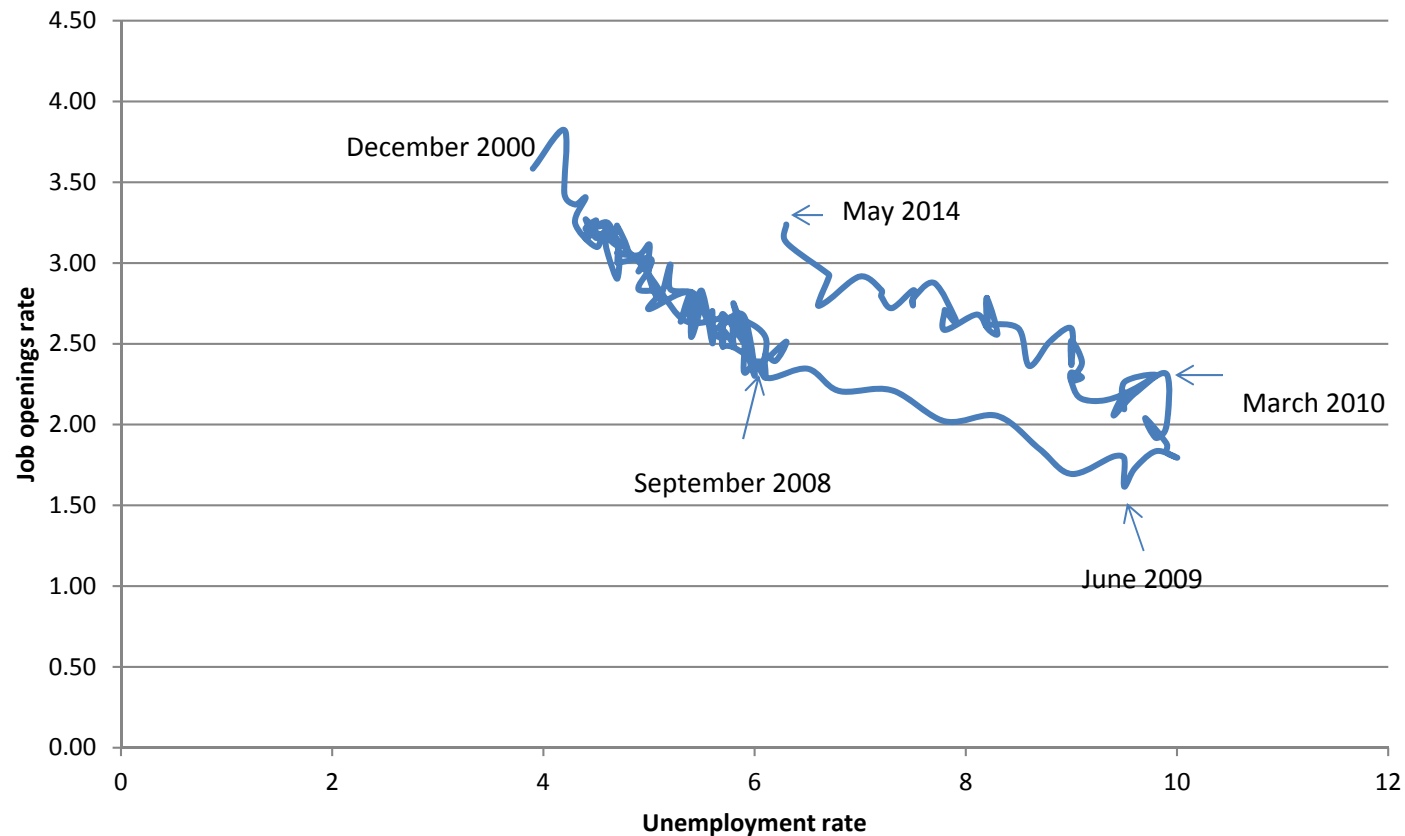
The number of unemployed per job opening skyrocketed in at the beginning of the recession and peaked at the beginning of the recovery. The number of hires per vacancy followed a similar trend but less dramatically.

Number of Unemployed per Job Opening and Long-term Unemployed



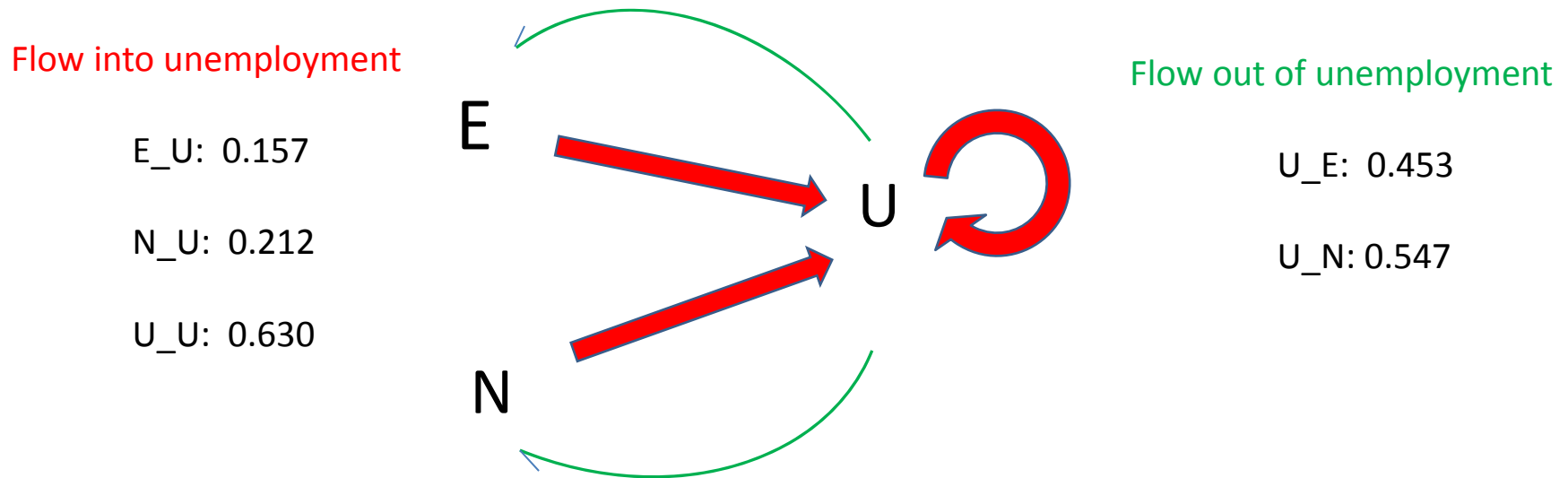
Even as job openings per unemployed became much more plentiful, the percentage of unemployed with an unemployment spell longer than 27 weeks remained historically high.

Beveridge Curve, December 2000 to May 2014



Krueger, Cramer and Cho (2014) suggests that the shift in the Beveridge Curve is due to the increase in long-term unemployment during the Great Recession. The relationship between vacancies and unemployment appears to be stable if one uses the short-term unemployment rate. Ghayad and Dickens (2012) come to a similar conclusion.

Gross flows: paths into and out of unemployment



Examine monthly employment flows using match CPS to see whether there are any detectable changes in these flows that might lead to the high long-term unemployment. During any time period, u_u accounts for the largest flows into unemployment. There is also a relatively sizable flow between unemployment and not in the labor force (N). The rates shown here are 12-month averages ending in August 2011.

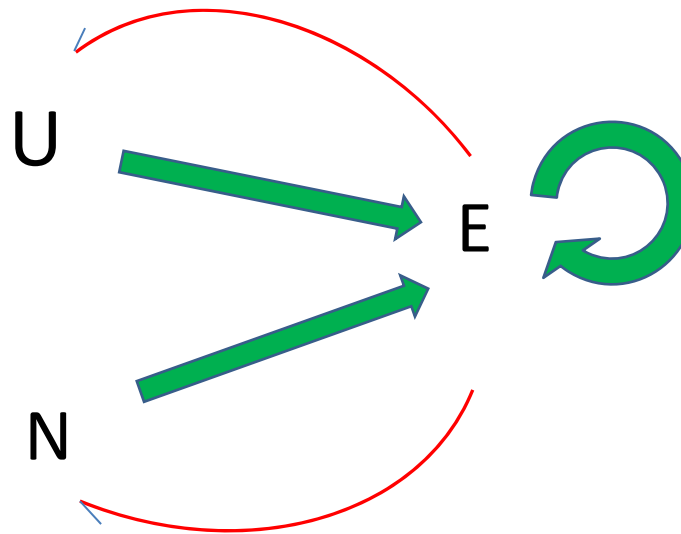
Gross flows: paths into and out of employment

Flow into employment

U_E: 0.017

N_E: 0.025

E_E: 0.957



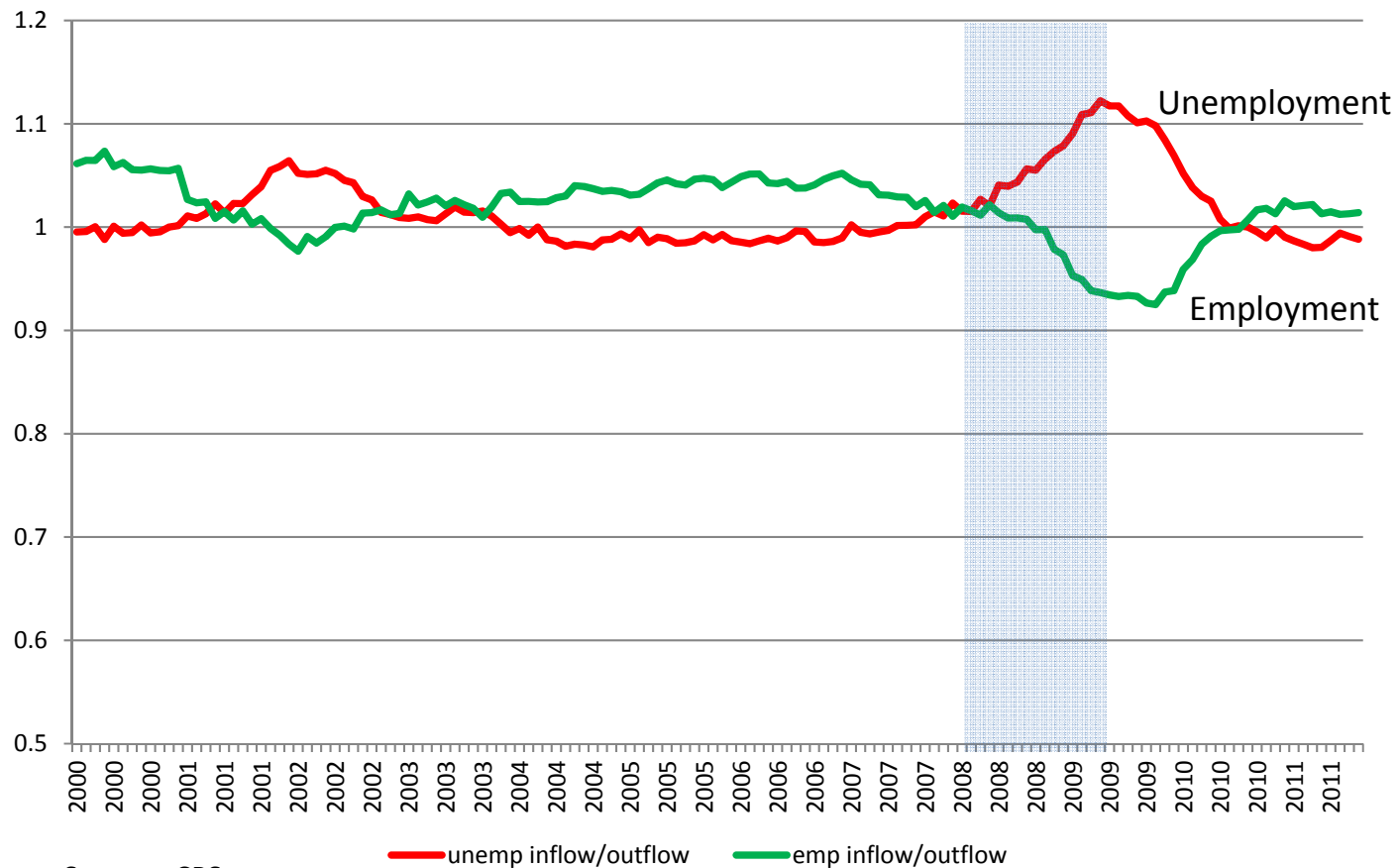
Flow out of employment

E_U: 0.376

E_N: 0.624

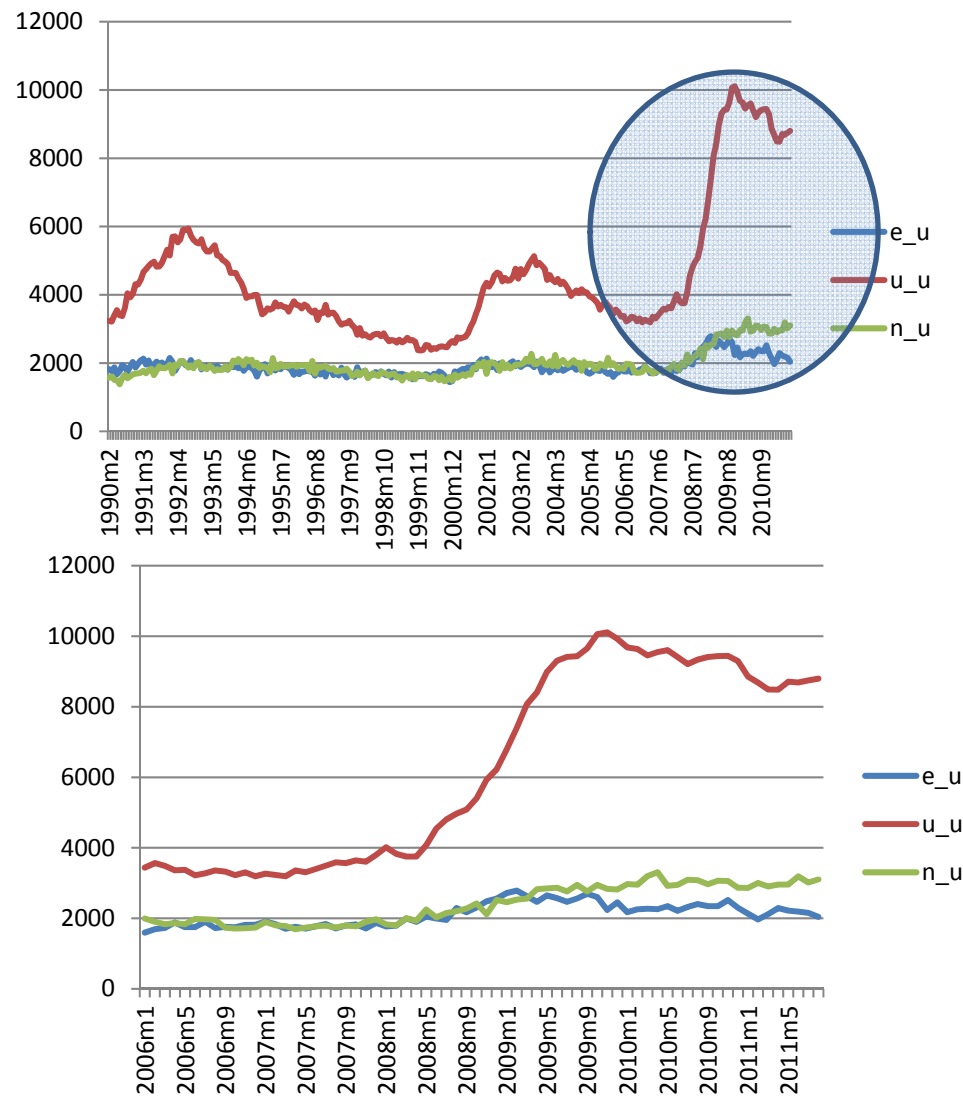
The most persistent flow is employment to employment. Movement into employment from unemployment and not in the labor force is small. The largest flow out of employment is to leave the labor force.

Relationship between the Ratio of Inflow to Outflow into Unemployment And Ratio of Inflow and Outflow into Employment

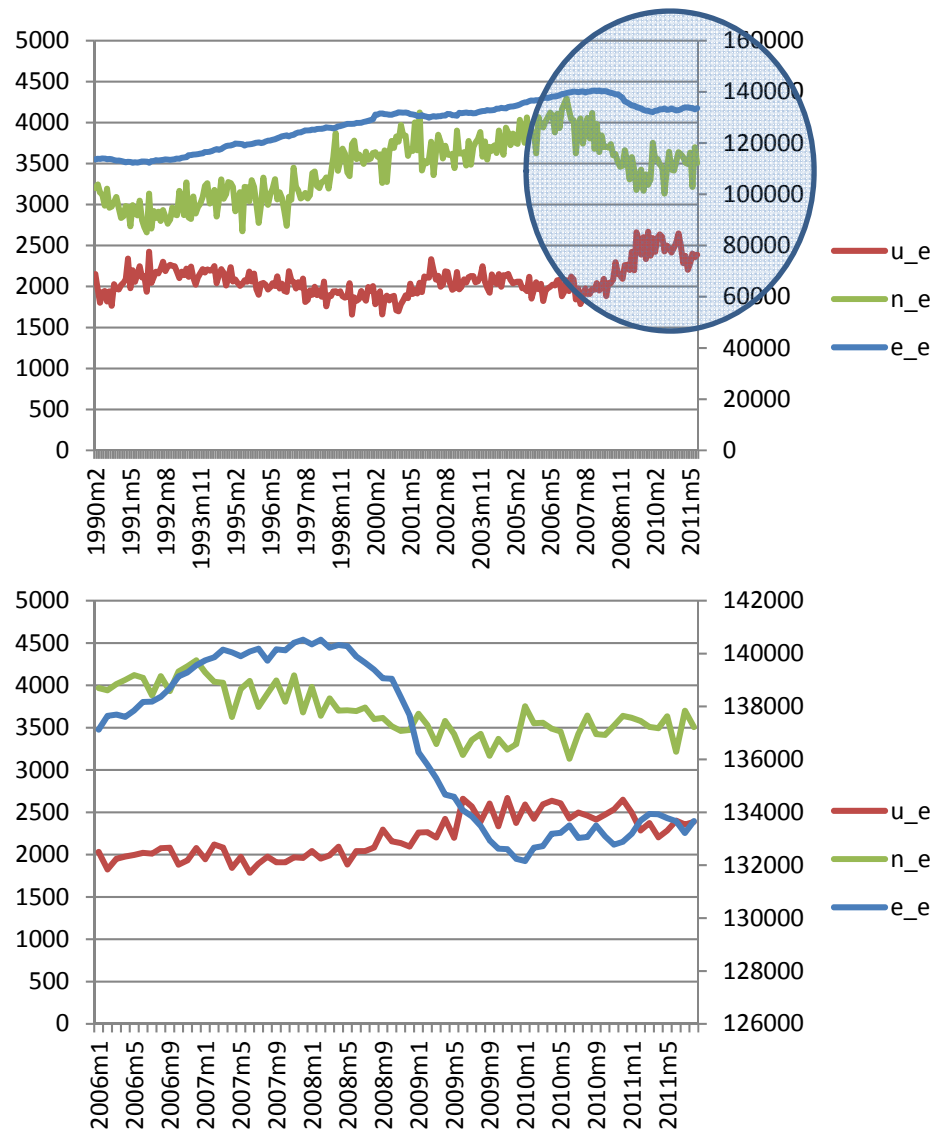


Source: CPS

Note: Ratios do not include flow from employment into employment or unemployment into unemployment.
Twelve month average used to smooth flow ratios.



Unemployment rose sharply at the beginning of the recession as an increasing number of people could not break out of being unemployed and more returned to U from being out of the labor market. The flow from U to U increased from 4 to 10 million and the flow from N to U increased from 2 to 3 million.



The flow from employment to employment declined from 140 to 132 million and the flow from U to E ticked up from 2 to 2.5 million.

Profile of the Employed, Short-term Unemployed and Long-term Unemployed, 2012

Category		Percent Employed	Percent of short-term unemployed (<14 wks)	Percent of long-term unemployed (>26 wks)
Gender	Male	53	54	55
Age	16-34	34	57	40
	35-49	33	23	29
	50+	33	19	31
Marital Status	Married	56	33	37
	Widowed/Divorced/Separated	15	15	19
	Never Married	29	52	44
Race	White, Nonhispanic	67	55	51
	African American	10	16	22
	Hispanic	15	22	19
	Asian/Pacific Islander	6	4	5
	Other	2	3	3
Education	Less than High School	9	23	18
	High School	27	33	36
	Some College	19	20	20
	Associate's Degree	11	8	9
	Bachelor Degree or higher	34	17	18

Profile of the Employed, Short-term Unemployed and Long-term Unemployed, 2012 (cont'd)

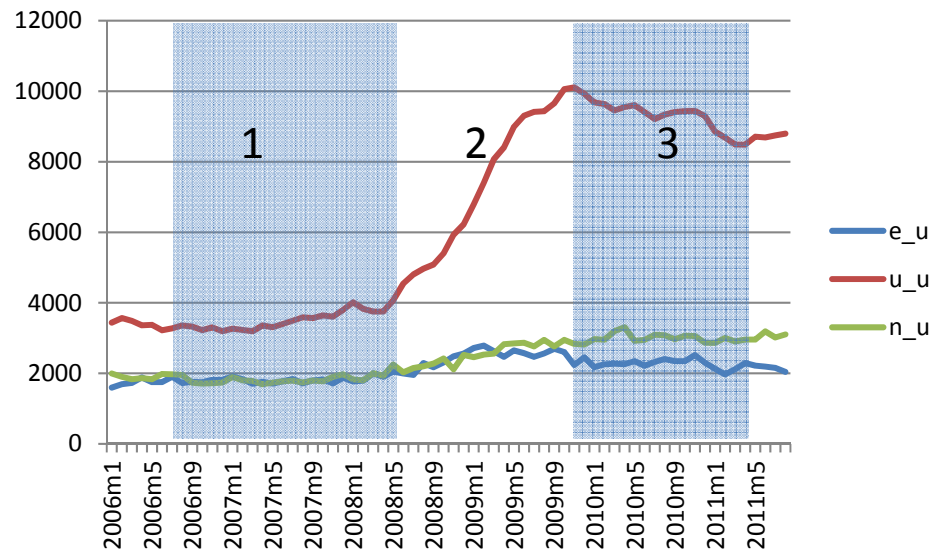
Category		Percent Employed	Percent of short-term unemployed (<14 wks)	Percent of long-term unemployed (>26 wks)
Industry	Construction	6	12	11
	Manufacturing	10	9	11
	Wholesale and Retail Trade	14	15	16
	Finance and Real Estate	7	4	5
	Professional and Bus. Services	12	14	14
	Education and Health Care	23	16	15
	Leisure and Hospitality	9	15	12
	All Other	19	16	15
Occupation	Prof. and Technical	22	13	12
	Managerial and Financial	16	7	10
	Administrative	12	12	14
	Sales and Service	32	39	36
	Blue Collar	18	29	28

Source: Krueger, Kramer, Cho, 2014

Blinder-Oaxaca Decomposition

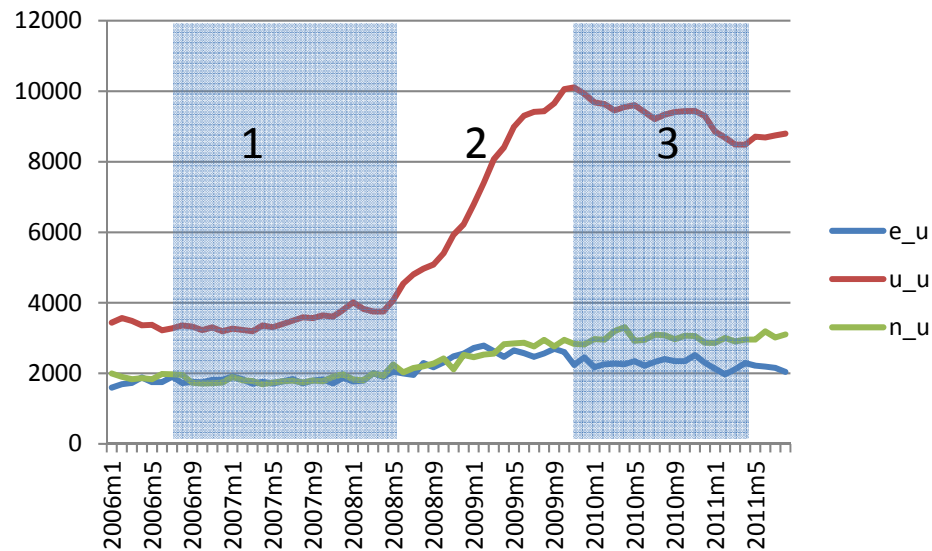
- Used Blinder-Oaxaca decomposition to sort out whether the change in key flow components are accounted for by a change over time in characteristics or a change over time in how characteristics relate to flows
- Looked at two key flows, u_u and n_u , which changed significantly from the pre-recession to post-recession periods
- For both flows, the characteristics changed little over this time period but the relationships did
 - Krueger, Cramer, and Cho (2014) found the same thing using a slightly different methodology.
 - They used pre-recession estimated β to value X 's over the entire period and showed no change in predicted flow rate

Blinder-Oaxaca Decomposition



U_U	Time period Comparison					
	1	2	2	3	1	3
Prob.	0.0145	0.0284	0.0284	0.0392	0.0145	0.0392
	Coef.	z	Coef.	z	Coef.	z
ΔX	0.0003	12.41	0.0004	10.16	0.00009	20.71
ΔB	-0.0140	-91.64	-0.011	-49.77	-0.0248	-121.76
$\Delta X * \Delta B$	-0.0002	-12.22	-0.0002	-12.20	-0.0008	-22.53

Blinder-Oaxaca Decomposition



N_U	Time period Comparison					
	1	2	2	3	1	3
Prob.	0.0072	0.0096	0.0096	0.0118	0.0072	0.0118
	Coef.	z	Coef.	z	Coef.	z
ΔX	0.0001	9.30	0.00003	2.20	0.00015	9.13
ΔB	-0.0025	-25.94	-0.0022	-17.15	-0.0047	-38.71
$\Delta X * \Delta B$	-0.00003	-4.74	-0.00003	-4.34	-0.0001	-6.90

Unemployment to Left Labor Force

- Krueger, Cramer, and Cho (2014) report that those who were either short-term or long-term unemployed in the initial interview and left the workforce by month 16 and reported they no longer wanted a job indicated that they were:

Response at month 16	Duration of Unemployment in Month 1 or interview	
	<27 weeks	>27 weeks
Taking care of house or family	43%	56%
Other unspecified activities		19%
In school	32%	16%
Retirement		2%
Disability		3%
Illness		1%

Job Finding Rate and Duration Dependence

- Kroft, Lange, Notowidigdo, and Katz (2014) find that job-finding rate (u_e) falls sharply for first 8-10 months of unemployment and then declines much less steeply after that
 - The pattern is similar even after controlling for personal characteristics
- Kroft, Lange, and Notowidigdo (2013) find that the likelihood of a call back for an interview decreases sharply for first 8 months of unemployment and then tapers off

Blinder-Oaxaca Decomposition

U_E	Unemployment Duration			
Year	2007		2010	
	<27 wks	> 27 wks	<27 wks	> 27 wks
Prob.	0.181	0.090	0.137	0.060
	Coef.	z	Coef.	z
ΔX	0.0024	1.55	0.0021	3.47
ΔB	0.085	16.06	0.074	27.34
$\Delta X * \Delta B$	0.0017	0.93	0.0008	0.86

Job Finding of Older vs. Younger Workers

- Eberts and O'Leary (2008) used UI wage records to look at return to work of older and younger workers in Michigan
- Earnings: The post-to-pre UI claim earnings ratio is higher for younger workers than for older workers for all quarters in analysis (11 quarters after BYB)
- Employment rates: Younger workers have an advantage over older workers, particularly in the first four quarters after BYB.
- Job tenure: Older workers have a clear advantage over younger workers for at least the first six quarters by being employed with their initial employer at a significantly higher rate than younger workers (with an advantage ranging from 4.0 to 11.3 percentage points)

Job Finding and Early Return to Work

- Early return to work: those finding employment sooner after a claim have better subsequent labor market success.
- Earnings recovery: Benefits for older workers for returning to work earlier but not for younger workers
- Employment rates: The employment rate improvement for returning to work earlier is greater for younger claimants than for older ones.
- Job tenure: early return to work does not provide a boost to job tenure on the reemployment job for either age group

Not-in-labor-Force and Unemployment

- Kroft, Lange, Notowidigdo, and Katz (2014) show the importance of marginally attached individuals in accounting for the increase in long-term unemployment
- The increase in n_u accounts for an additional 2-3 million long-term unemployed, according to a calibrated matching model

Previous and New Occupations of Short-term and Long-term Unemployed Who Regained Employment in 2012

Occupation	Total Employed	Employees Who Had Previously Been Unemployed but Found Work			
		Short Term Unemployed		Long-Term Unemployed	
		Old Work	New Work	Old Work	New Work
Blue-Collar Occupations	17.5%	33.4%	31.9%	26.8%	25.6%
Sales & Service	32.2	37.1	38.2	37.4	40.1
Administrative	12.4	9.1	9.5	12.9	12.9
Prof. & Technical	22.0	14.7	14.8	12.1	12.8
Managerial & Financial	15.9	5.7	5.6	10.8	8.5

Source: Krueger, Kramer, Cho, 2014

Previous and New Industries of Short-term and Long-term Unemployed Who Regained Employment in 2012

Occupation	Total Employed	Employees Who Had Previously Been Unemployed but Found Work			
		Short Term Unemployed		Long-Term Unemployed	
		Old Work	New Work	Old Work	New Work
Construction	6.3%	14.3%	13.6%	10.9%	11.5%
Manufacturing	10.3	8.1	7.7	9.5	6.5
Wholesale & Retail	14.0	13.2	12.9	15.0	15.7
Financial Activities	6.7	3.1	2.9	5.4	3.7
Prof. & Bus. Svcs	11.6	13.2	13.4	15.5	16.9
Educational Svcs	9.1	9.1	8.6	5.2	6.0
Health Care Svcs	13.6	8.2	8.7	10.6	10.4
Leisure & Hospitality	9.3	14.6	16.2	12.2	12.6
All Other	19.1	16.3	13.1	15.7	16.6

General Conclusion

Krueger, Cramer and Cho (2014) conclude that:

- “ Long-term unemployed in the U.S. are an unlucky subset of the unemployed.
- Their diverse and varied set of characteristics implies that a broad array of policies will be needed to substantially lower the long-term unemployment rate and stem labor force withdrawal,
 - As concentrating on any single occupation, industry, or demographic group or region is unlikely to have a substantial impact on reducing long-term unemployment by itself.
- Understanding the labor market and personal hurdles faced by the long-term unemployed should be a priority for future research in order to craft solutions to reduce long-term unemployment” (p. 54).

Policies and Programs

- Extended UI benefits
 - Congress extended benefits during the recession beginning in 2008
- Wage subsidy programs
 - The Recovery Act provided \$1.3 billion for states to establish subsidized job programs under TANF Emergency Fund
 - Other programs have also been in effect
- Public-private partnerships
 - Administration recently announced Ready to Work H1B program as part of a three-prong strategy

Extended UI Benefits

- Congress extended UI benefits beginning in 2008 so that displaced workers could receive up to 99 weeks of benefits
- UI benefits replace half the earnings loss of unemployment and when benefits end only a small portion of loss offset by food stamps or other social safety net programs
- Controversy whether this has prolonged the high unemployment rates and has contributed to long-term unemployment
 - Farber and Valetta (2013)
 - Find a small but statistically significant reduction in the unemployment exit rate and a small increase in the expected duration of unemployment arising from both sets of UI extensions
 - The effect on exits and duration is primarily due to a reduction in exits from the labor force rather than a decrease in exits to employment
 - The major effect of extended benefits is redistributive, providing income to job losers who remain nominally unemployed so they can collect UI benefits instead of exiting the labor force
 - Card, Chetty, and Weber (2007) and Rothstein (2011) find similar results

Wage Subsidies

- Recovery Act included \$1.3 billion under the TANF Emergency Fund for states to establish job subsidy programs for needy families
- Operated as a federal-state partnership
 - Federal government provided the funds covering 80% of increased costs to states and employer portion of costs to supervise and train workers made up the rest
 - States designed and operated programs, with 39 states participating
- 260,000 subsidized job placements were split evenly between year-round adults and summer youth, at an average cost of \$5,000 per placement

Florida Back to Work

- Administered at the local level by regional workforce boards that entered into direct agreements with employers for each individual the employer hired.
- The program placed individuals in jobs with for-profit, non-profit, and government agencies at the prevailing wage for the occupation, up to a maximum of \$19.51 per hour, and reimbursed employers for 80 to 95 percent of the cost of wages and related payroll costs.
- An individual could stay in the placement for up to 12 months, but because the program ended when the funding expired, most participants never reached the maximum duration.
- For-profit agencies were asked to commit to hire, and non-profits were encouraged to do so.
- The program was targeted to parents with income under 200 percent of the federal poverty level.

Evaluation

- Evaluation of five sites in four states by Economic Mobility Corporation
 - Tracked participants before and after subsidized program
 - One state used a comparison group--Florida
- Findings:
 - Participation in subsidized employment led to increased employment and increased earnings, about \$2,500 higher than comparison group
 - Long-term unemployed benefited more from subsidized job, by \$3,500 over short-term unemployed
 - Participants with significant barriers benefited
 - Most employers (63%) reported they created jobs that would not have existed otherwise

Ready to Work

- The Long-term Unemployed H-1B Ready To Work Partnerships grant program (Ready to Work) will utilize approximately \$150 million in revenues from the H-1B visa program
- Supports high performing partnerships between employers, non-profit organizations and America's public workforce system
- With intent to help provide long-term unemployed individuals with the range of services, training, and access they need to fill middle and high-skill jobs.
- Competitive bids

Key Features of Ready to Work

- Focus on reemploying long-term unemployed workers:
 - Recruit long-term unemployed workers and employ strategies that are effective in getting them back to work in middle to high-skill occupations.
 - These strategies could include assessments, job placement assistance, training, mentoring and supportive services such as financial counseling and behavioral health counseling.
- Work-based training that enables earning while learning through models such as On-the-Job Training (OJT), Paid Work Experience, Paid Internships and Registered Apprenticeships:
 - Incorporating work-based training will afford employers the opportunity to train workers in the specific skill sets required for open jobs.
 - Waivers to pay up to 95% of training instead of 50% under OJT
- Employer engagement and support in program design - including programs that commit to consider hiring qualified participants:
 - Training programs funded by these grants must address the skills and competencies demanded by employers and high-growth industries, and ultimately lead to the employment of qualified participants.
 - Preference will be given to applicants with employer partners that make a commitment to consider candidates who participate in these programs.

Larger Administrative Initiative

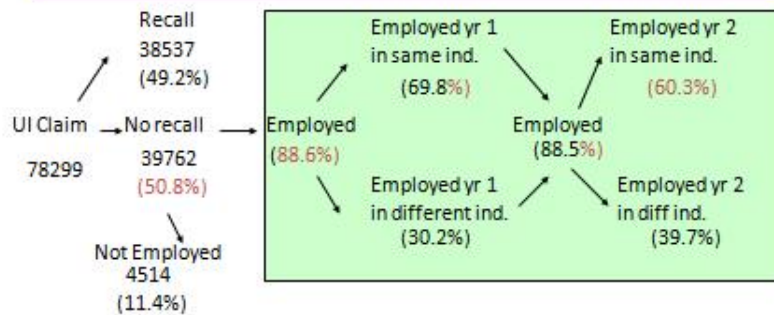
- Engaging employers in best practices for hiring and recruiting the long-Term unemployed.
 - The Administration engaged with America's leading businesses to develop best practices for hiring and recruiting the long-term unemployed to ensure that these candidates receive a fair shot during the hiring process.
 - Over 80 of the nation's largest businesses have signed on, including 20 members of the Fortune 50 and over 45 members of the Fortune 200, as well as over 200 small- and medium-sized businesses.
- Ready to Work--Encouraging regional collaboration to get the long-term unemployed back to work.
- Ensuring Federal policies support hiring of the long-term unemployed.
 - The President used his executive authority to sign a Presidential Memorandum to make sure that individuals who are unemployed or have faced financial difficulties through no fault of their own receive fair treatment and consideration for employment by federal agencies.

Additional Questions??

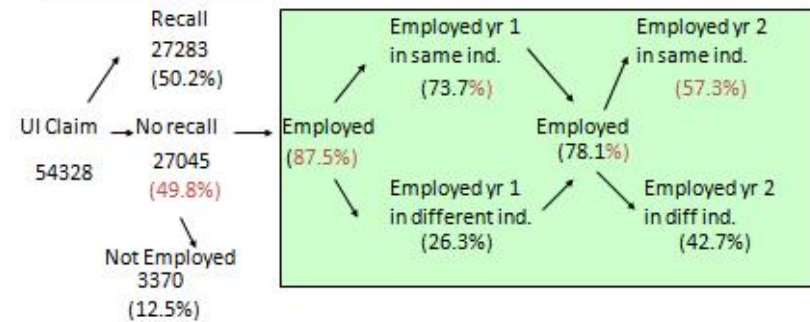
Thank you

Michigan Auto

2001

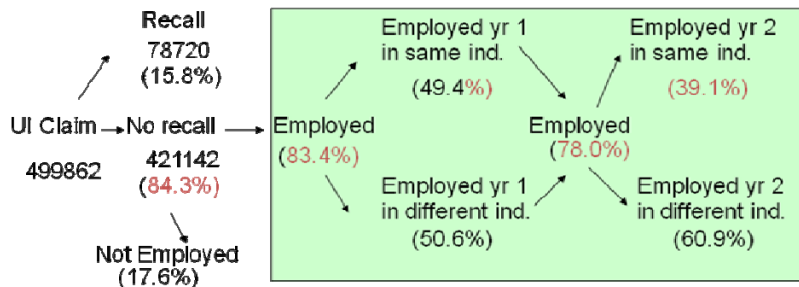


2006

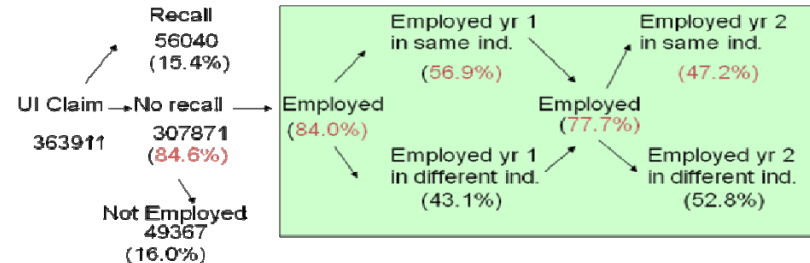


Michigan Non-Auto

2001



2006



Flows out of Unemployment and Unemployment Duration

Year	Duration of Unemployment		
u_e	< 14 weeks	> 27 weeks	> 52 weeks
2006	0.202	0.096	0.070
2009	0.146	0.058	0.052
2010	0.158	0.060	0.052
u_n	< 14 weeks	> 27 weeks	> 52 weeks
2006	0.154	0.174	0.187
2009	0.120	0.110	0.119
2010	0.131	0.117	0.114
u_u	< 14 weeks	> 27 weeks	> 52 weeks
2006	0.270	0.348	0.375
2009	0.359	0.453	0.462
2010	0.334	0.444	0.465

Unemployment to Employment Flow

Year	Duration of Unemployment		
Age >50	< 14 weeks	> 27 weeks	> 52 weeks
2006	0.21	0.084	0.064
2009	0.159	0.043	0.034
2010	0.161	0.048	0.041
Age 16 to 34	< 14 weeks	> 27 weeks	> 52 weeks
2006	0.196	0.099	0.072
2009	0.138	0.060	0.057
2010	0.151	0.068	0.058